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If we are unable to attract and retain qualified personnel, our business and operations could suffer.

Our success is dependent upon our ability to identify, attract, compensate, motivate and retain qualified personnel who can enhance our existing technologies and introduce new technologies. Competition for qualified personnel, particularly those with significant industry experience, is intense. In addition, the consequences of the stock option investigation and restatements could cause increased attrition of our current personnel and negatively impact our reputation with potential employees. We are also dependent upon our senior management personnel. The loss of the services of any of our senior management personnel, or key sales personnel in critical markets, or critical members of staff, or of a significant number of our engineers could be disruptive to our development efforts or business relationships and could cause our business and operations to suffer.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including new SEC regulations and Nasdaq rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

If we fail to remediate any material weaknesses in our internal control over financial reporting, we may be unable to accurately report our financial results or reasonably prevent fraud which could result in a loss of investor confidence in our financial reports and have an adverse effect on our business and operating results and our stock price.

Effective internal control over financial reporting is essential for us to produce reliable financial reports and prevent fraud. If we cannot provide reliable financial information or prevent fraud, our business and operating results, as well as our stock price, could be harmed. We have in the past discovered, and may in the future discover, material weaknesses in our internal control over financial reporting. A failure to implement and maintain effective internal control over financial reporting, could harm our operating results, result in a material misstatement of our financial statements, cause us to fail to meet our financial reporting obligations or prevent us from providing reliable and accurate financial reports or avoiding or detecting fraud. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

Our operations are subject to risks of natural disasters, acts of war, terrorism or widespread illness at our domestic and international locations, any one of which could result in a business stoppage and negatively affect our operating results.

Our business operations depend on our ability to maintain and protect our facility, computer systems and personnel, which are primarily located in the San Francisco Bay Area. The San Francisco Bay Area is in close proximity to known earthquake fault zones. Our facility and transportation for our employees are susceptible to damage from earthquakes and other natural disasters such as fires, floods and similar events. Should an earthquake or other catastrophes, such as fires, floods, power loss, communication failure or similar events disable our facilities, we do not have readily available alternative facilities from which we could conduct our business, which stoppage could have a negative effect on our operating results. Acts of terrorism, widespread illness and war could also have a negative effect at our international and domestic facilities.

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We are leveraged financially, which could adversely affect our ability to adjust our business to respond to competitive pressures and to obtain sufficient funds to satisfy our future research and development needs, and to defend our intellectual property.

We have indebtedness. On February 1, 2005, we issued $300.0 million aggregate principal amount of zero coupon convertible senior notes ("convertible notes") due February 1, 2010, of which $160.0 million remains outstanding as of the date of this report.

The degree to which we are leveraged could have important consequences, including, but not limited to, the following:

- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may be limited;
- a substantial portion of our cash flows from operations will be dedicated to the payment of the principal of our indebtedness as we are required to pay the principal amount of the convertible notes in cash when due;
- if we elect to pay any premium on the convertible notes with shares of our Common Stock or we are required to pay a "make-whole" premium with our shares of Common Stock, our existing stockholders' interest in us would be diluted; and
- we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions.

A failure to comply with the covenants and other provisions of our debt instruments could result in events of default under such instruments, which could permit acceleration of the convertible notes under such instruments and in some cases acceleration of any future debt under instruments that may contain cross-default or cross-acceleration provisions. For instance, as a result of the stock option investigation, in July 2007, the trustee of the convertible notes accelerated the convertible notes due to an alleged event of default that had occurred under the convertible notes because of our non-compliance with the SEC reporting covenant. We continue to evaluate our options with respect to the convertible notes as a result of the receipt of the notice of acceleration. Although a repayment of the convertible notes pursuant to the acceleration notice would not change our net cash position, a repayment would lower our current cash on hand such that we would not have those funds available for the use in our business.

If we are at any time unable to generate sufficient cash flow from operations to service our indebtedness when payment is due, we may be required to attempt to renegotiate the terms of the instruments relating to the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

Our certificate of incorporation and bylaws, our stockholder rights plan, and Delaware law contain provisions that could discourage transactions resulting in a change in control, which may negatively affect the market price of our Common Stock.

Our certificate of incorporation, our bylaws, our stockholder rights plan and Delaware law contain provisions that might enable our management to discourage, delay or prevent change in control. In addition, these provisions could limit the price that investors would be willing to pay in the future for shares of our Common Stock. Among these provisions are:

- our board of directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as "blank check" preferred stock, with rights senior to those of Common Stock;
- our board of directors is staggered into two classes, only one of which is elected at each annual meeting;
- stockholder action by written consent is prohibited;
- nominations for election to our board of directors and the submission of matters to be acted upon by stockholders at a meeting are subject to advance notice requirements;

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- certain provisions in our bylaws and certificate of incorporation such as notice to stockholders, the ability to call a stockholder meeting, advanced notice requirements and the stockholders acting by written consent may only be amended with the approval of stockholders holding $66^2/_3$% of our outstanding voting stock;
- the ability of our stockholders to call special meetings of stockholders is prohibited; and
- our board of directors is expressly authorized to make, alter or repeal our bylaws.

In addition, the provisions in our stockholder rights plan could make it more difficult for a potential acquirer to consummate an acquisition of our company. We are also subject to Section 203 of the Delaware General Corporation Law, which provides, subject to enumerated exceptions, that if a person acquires 15% or more of our outstanding voting stock, the person is an "interested stockholder" and may not engage in any "business combination" with us for a period of three years from the time the person acquired 15% or more of our outstanding voting stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2006, we occupied offices in the leased facilities described below:

Number of Offices Under Lease	Location	Primary Use
4	United States	Executive and administrative offices, research and development, sales and marketing and service functions
	Los Altos, CA (Headquarters)	
	Chapel Hill, NC	
	Mountain View, CA	
	Austin, TX	
2	Bangalore, India	Administrative offices, research and development and service functions
1	Tokyo, Japan	Business development
1	Taipei, Taiwan	Business development
1	Seoul, Korea	Business development
1	Pforzheim, Germany	Business development

In May 2006, we signed an agreement to lease a new office facility in Bangalore, India into which we intend to consolidate all of our Bangalore operations. We are currently awaiting receipt of a certificate of occupancy or confirmation of deemed occupancy under local statutes in order for us to occupy the building.

Item 3. Legal Proceedings

For the information required by this item regarding legal proceedings, see Notes 3, 17 and 18, "Restatement of Consolidated Financial Statements," "Litigation and Asserted Claims" and "Subsequent Events," respectively, of Notes to Consolidated Financial Statements of this Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock is listed on The Nasdaq Global Select Market under the symbol "RMBS." Due to the investigation of our historical stock option practices (see Item 3, "Legal Proceedings") and the resulting restatements (see Note 3, "Restatement of Consolidated Financial Statements" of Notes to Consolidated Financial Statements), we did not file our periodic reports with the SEC on time and therefore our Common Stock is subject to delisting from The Nasdaq Global Select Market. Although with the filing of this Report on Form 10-K and our Quarterly Reports on Form 10-Q for the quarters ended June 30 and September 30, 2006 we have fulfilled our filing requirements through fiscal 2006, we are still out of compliance on our filings for fiscal 2007. We will continue to be subject to potential delisting until we are current with the SEC on all of our filings and have been notified by Nasdaq that we are in compliance (See Item 1A, "Risk Factors").

The following table sets forth for the periods indicated the high and low sales price per share of our Common Stock as reported on The Nasdaq Global Select Market.

	Twelve Months Ended December 31, 2006		Twelve Months Ended December 31, 2005	
	High	Low	High	Low
First Quarter	$ 40.22	$ 17.50	$ 23.79	$ 12.95
Second Quarter	$ 46.99	$ 19.79	$ 16.14	$ 13.16
Third Quarter	$ 25.38	$ 10.25	$ 14.65	$ 10.22
Fourth Quarter	$ 23.83	$ 15.87	$ 18.00	$ 10.75

Information regarding our securities authorized for issuance under equity compensation plans is included in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," of this report on Form 10-K.

In the first quarter of fiscal year 2007, ended March 31, 2007, the high and low closing prices of our Common Stock on The Nasdaq Global Select Market were $23.95 and $17.31, respectively. In the second quarter of fiscal year 2007, ended June 30, 2007, the high and low closing prices of our Common Stock on The Nasdaq Global Select Market were $22.00 and $17.67, respectively.

As of May 31, 2007, there were 839 holders of record of our Common Stock. Because many of the shares of our Common Stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. We have never paid or declared any cash dividends on our Common Stock or other securities and have no current plans to do so.

Share Repurchase Program

In October 2001, our Board of Directors approved a share repurchase program of our Common Stock principally to reduce the dilutive effect of employee stock options. On January 23, 2006 our Board of Directors approved an authorization to repurchase up to an additional 5.0 million shares of our Common Stock, giving us a total authorization to purchase up to 19.0 million shares of our outstanding Common Stock over an undefined period of time. During the first quarter of fiscal 2006, we repurchased 0.7 million shares at an average price per share of $29.94. As of December 31, 2006, we had repurchased a cumulative total of 13.2 million shares of our Common Stock at an average price per share of $13.95 since the commencement of this program. This amount includes 4.1 million shares repurchased in connection with our $300.0 million zero coupon convertible senior subordinated note offering on February 1, 2005. As

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of December 31, 2006, there remained an outstanding authorization to repurchase 5.8 million shares of our outstanding Common Stock as represented in the table below. In connection with the stock options investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. We will not repurchase additional shares until after we are current with our SEC filings.

Period	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Total Paid	Average Price Paid per Share	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance 1/01/06	12,531,098	$163,576,320	$ 13.05	1,520,765
Additional authorization				5,000,000
				6,520,765
1/01/06 - 1/30/06	500,000	$ 15,187,375	$ 30.37	6,020,765
2/01/06 - 2/28/06	200,000	$ 5,767,700	$ 28.84	5,820,765
Total shares repurchased	13,231,098	$184,531,395	$ 13.95	

Item 6. Selected Financial Data

The following selected consolidated financial data has been restated to correct for our past accounting for stock options and certain other adjustments. Such data is derived from our consolidated financial statements and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data," and other financial data included elsewhere in this report. Our historical results of operations are not necessarily indicative of results of operations to be expected for any future period.

On April 10, 2003, the Board of Directors of Rambus voted to change the fiscal year end of Rambus from September 30 to December 31, effective January 1, 2003. As a result, selected financial data is presented for the twelve months ended December 31, 2006, 2005, 2004, 2003, the three months ended December 31, 2002 and the twelve months ended September 30, 2002.

See Note 3, "Restatement of Consolidated Financial Statements," of Notes to Consolidated Financial Statements, for more detailed information regarding the restatement of our consolidated financial statements as of December 31, 2005 for the years ended December 31, 2005 and 2004 and our selected consolidated financial data as of and for our fiscal years ended December 31, 2005, 2004, 2003, our quarter ended December 31, 2002 and our fiscal year ended September 30, 2002.

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(in thousands, except per share amounts)	Twelve Months Ended December 31, 2006	2005 As restated	2004 As restated	2003 As previously reported	2003 Adjustments	2003 As restated
Total revenues	$195,324	$157,198	$144,874	$ 118,203	$ 100	$118,303
Net income (loss)	$(13,816)	$ 28,940	$ 22,361	$ 23,221	$ (17,238)	$ 5,983
Net income (loss) per share:						
Basic	$ (0.13)	$ 0.29	$ 0.22	$ 0.24	$ (0.18)	$ 0.06
Diluted	$ (0.13)	$ 0.28	$ 0.21	$ 0.22	$ (0.16)	$ 0.06
Consolidated Balance Sheet Data:						
Cash, cash equivalents and marketable securities	$436,341	$355,390	$236,360	$ 188,538	$ —	$188,538
Total assets	$604,617	$515,953	$396,052	$ 293,086	$ 28,023	$321,109
Deferred revenue	$ 7,557	$ 9,290	$ 23,823	$ 42,202	$ —	$ 42,202
Convertible notes	$160,000	$160,000	$ —	$ —	$ —	$ —
Stockholders' equity	$382,288	$323,467	$353,576	$ 240,080	$ 22,277	$262,357

(in thousands, except per share amounts)	Three Months Ended December 31, 2002 As previously reported	Adjustments	As restated	Twelve Months Ended September 30, 2002 As previously reported	Adjustments	As restated
Total revenues	$ 25,704	$ 74	$ 25,778	$ 96,565	$ 79	$ 96,644
Net income	$ 5,529	$ (5,328)	$ 201	$ 24,704	$ (24,145)	$ 559
Net income per share:						
Basic	$ 0.06	$ (0.06)	$ 0.00	$ 0.25	$ (0.24)	$ 0.01
Diluted	$ 0.06	$ (0.06)	$ 0.00	$ 0.24	$ (0.23)	$ 0.01
Consolidated Balance Sheet Data:						
Cash, cash equivalents and marketable securities	$ 175,832	$ —	$175,832	$ 156,129	$ 1,194	$157,323
Total assets	$ 250,523	$ 30,085	$280,608	$ 232,959	$ 29,421	$262,380
Deferred revenue	$ 37,760	$ 100	$ 37,860	$ 26,987	$ 174	$ 27,161
Convertible notes	$ —	$ —	$ —	$ —	$ —	$ —
Stockholders' equity	$ 202,377	$ 23,745	$226,122	$ 195,492	$ 21,938	$217,430

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements, including, without limitation, our expectations regarding revenues, expenses and results of operations, as well as the outcome of our stock option investigation and related litigation. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements include, but are not limited to, those discussed in the "Special Note Regarding Forward-Looking Statements" Item 1A. of PART I, "Risk Factors," and below. We assume no obligation to update the forward-looking statements or such risk factors.

Restatement of Consolidated Financial Statements, Audit Committee, Special Litigation Committee and Company Findings, Remedial Measures and Related Proceedings

This Annual Report on Form 10-K for our fiscal year December 31, 2006 includes restatements of: (1) previously filed consolidated financial statements, financial data and related disclosures as of December 31, 2005 and for our fiscal years ended December 31, 2005 and 2004; (2) our selected consolidated financial data as of and for our

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fiscal years ended December 31, 2005, 2004, 2003, our quarter ended December 31, 2002, and our fiscal year ended September 30, 2002; (3) our management's discussion and analysis of financial condition and results of operations as of and for our fiscal years ended December 31, 2005 and 2004 contained in Item 7 of this Form 10-K; and (4) our unaudited quarterly financial data for the first quarter of fiscal year ended December 31, 2006 and for all quarters in our fiscal year ended December 31, 2005 located at the end of Item 15 of this Form 10-K. The restatements are the result of errors in the way we accounted for certain historical stock option grants that were discovered through our independent stock option investigation conducted by the Audit Committee of the Board of Directors. See Note 3, "Restatement of Consolidated Financial Statements," of Notes to Consolidated Financial Statements and Exhibit 99.1 for a detailed discussion of the effect of the restatements.

Our previously issued consolidated financial statements for the fiscal years 2005 and prior, which are included in our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years and the consolidated financial statements included in our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon.

Audit Committee Investigation of Historical Stock Option Practices

In early 2006, an academic study and numerous subsequent press reports began to publicize the likely widespread occurrence of accounting and corporate governance irregularities with respect to the granting of stock options and other equity awards at over 100 companies, many in the high-tech sector. One report included Rambus as one of the companies surveyed with a high risk of having backdated stock option grants. As a result, in late May 2006, we conducted an initial review in which we discovered apparent irregularities in past stock option grants and reported our findings to the Audit Committee and the Board of Directors.

On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and other related accounting issues. Each of the members of the Audit Committee had joined our Board of Directors and Audit Committee after January 1, 2005. The Audit Committee retained independent legal counsel and an independent accounting firm to assist in the investigation.

On July 17, 2006, the Audit Committee concluded that the actual dates of determination for certain past stock option grants differed from the originally stated grant dates for such awards. Because the prices at the originally stated grant dates were lower than the prices on the actual dates of the determination, we concluded that we should have recognized material amounts of stock-based compensation expense which were not accounted for in our previously issued consolidated financial statements. Therefore, the Audit Committee and management concluded that our previously issued consolidated financial statements for the fiscal years 2003, 2004 and 2005 which were included in our 2005 Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years, and the consolidated financial statements included in our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon and would be restated.

Findings and Remedial Actions

By October 18, 2006, the Audit Committee had substantially completed its findings with respect to the timing of our historical stock option grants. The independent investigation over the previous four months included a review of over 200 stock option granting actions from the time of our initial public offering through the commencement of the investigation in late May 2006. The review encompassed over 1.5 million emails and other documents, and over 50 interviews with current and former executive officers, directors, employees and advisors.

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The results of the investigation were consistent with the Audit Committee's earlier conclusion that our previously filed consolidated financial statements should no longer be relied upon. We are disclosing the restatement of the consolidated financial statements for the affected periods by filing this Annual Report on Form 10-K for the year ended December 31, 2006, which includes the restatement of the consolidated financial statements for the 2005 and 2004 fiscal years, as well as restated supplementary financial data for the first quarter of 2006. In addition, the errors we identified impacted our consolidated financial statements for the periods prior to the year ended December 31, 2004. In the restated consolidated financial statements in this Annual Report on Form 10-K, the cumulative impact of the errors as of December 31, 2003 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred taxes as of January 1, 2004. The impact of these errors will continue to have an effect on our consolidated financial statements for periods through fiscal 2009.

The impact of these errors also extended to the quarter ended March 31, 2006. Restated unaudited consolidated financial statements for the periods ended March 31, 2006 and 2005, related restated management's discussion and analysis of financial condition and results of operations for these periods and certain restated tables and disclosures related to APB 25, SFAS 123 and SFAS 123(R) are included in Exhibit 99.1. We have filed interim consolidated financial statements on Form 10-Q for the period ended June 30, 2006 and the period ended September 30, 2006. In these quarterly consolidated financial statements, the cumulative impact of the errors as of December 31, 2004 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred taxes as of January 1, 2005.

Other balance sheet items related to prior periods affected by the restatement are reflected in the opening balances of the consolidated balance sheet as of January 1, 2004.

On August 30, 2007, the Audit Committee completed its investigation. The Audit Committee concluded that: (1) there was retroactive pricing of stock options granted to nearly all employees who received options, primarily during the periods from September 30, 1997 to December 31, 2004; (2) the retroactively priced options were not accounted for correctly in the Company's previously issued consolidated financial statements; (3) the retroactive pricing of options in many instances was intentional, not inadvertent or as a result of administrative error; (4) the retroactive pricing of options involved the selection of low exercise prices by certain former executive officers, and other former executives may have been aware of this conduct; (5) vesting terms on stock options for certain terminating employees were changed without proper authorization; and (6) the retroactive pricing of options in many instances involved the falsification of Stock Option Committee Memoranda, Unanimous Written Consents (UWC) and minutes of the Compensation Committee and offer letters to employees, resulting in erroneous statements being made in financial and other reports previously filed with the SEC, as well as in information previously provided to the Company's independent registered public accounting firm.

Because the retroactive pricing was the result of the actions of only a few individuals, the Board of Directors decided that the Company should continue to honor the retroactively priced options in most instances.

The Audit Committee further concluded that our former Chief Financial Officers and Controllers should have been more involved in understanding whether stock option grants were being properly accounted for, and either knew the proper accounting rules or should have taken steps to become aware of the proper accounting rules for stock option grants. At the time of these practices, it was the reasonable practice of our former Chief Financial Officers and Controllers to rely on senior executives of the Company to create accurate records of the stock option approvals and grants. Our former CEO participated in the approval of misdated stock option grants. He knew or should have been aware of the fact that date selection practices were occurring and that the approval memoranda he signed were not properly reflecting the actual approval dates. However, the Audit Committee also concluded that it was reasonable for the former CEO to believe that the Senior Vice President, Administration was handling the Company's stock option grants in accordance with the appropriate legal and accounting rules for stock option grants and understood the Company's actual practices.

Concurrent with the review by the Audit Committee, our management, under the oversight of the Audit Committee, completed an internal review in order to prepare the restated consolidated financial statements which included evaluations of our previous accounting for stock options and led to adjustments for: (a) stock option grants for which the Audit Committee determined that the actual grant date for accounting purposes was different from the stated grant date for new hire grants to employees, annual and other grants to employees, and any grants to officers; (b) grants made to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees; (c) payroll tax withholding liabilities for certain repriced stock grants that no longer qualify for Incentive Stock Option ("ISO") tax treatment; and (d) other miscellaneous adjustments for modifications and errors, including adjustments for grants to non-employees providing consulting services and adjustments for continued vesting after an individual

converted from an employee to a consultant role.

Summary of Accounting Adjustments by Category

These restated consolidated financial statements include adjustments that are primarily related to the stock option matters as well as adjustments that are related to other matters resulting from our internal review and the preparation of these restated consolidated financial statements.

The primary components of the restatement of our historical consolidated financial statements related to stock-based compensation are as follows:

- New Hire Grants to Employees We determined that during the period from February 1999 through October 2003, the individuals responsible for stock option grants to newly hired non-executive employees had a regular practice of selecting an exercise price equal to the lowest price of the quarter between the employee's start date and the end of the quarter for such grants. On certain occasions, individual employees were given a formal employment start date which preceded the date on which they actually began working for us. The result of this practice was that certain employees received a new hire grant at a grant price that was lower than the price of the stock on the employee's actual start date.

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There were three new hire grants to non-executive employees between October 2003 and December 2004 for which there were administrative errors made by our human resources department.

There were no material measurement date differences relating to grants to non-executive new hires in fiscal years 2005 and 2006.

- Annual and Other Grants to Employees We determined that between September 1998 and October 2003, the Stock Option Committee granted approximately 13.0 million stock options to non-executive employees for which the appropriate measurement dates differed from the recorded grant dates. The Stock Option Committee during this time period consisted of our CEO, Geoff Tate, as its sole member. The majority of the measurement date differences during this time period were caused by the creation of incorrect documentation concerning the date on which the stock options were approved. The human resources department usually created Stock Option Committee memoranda reflecting stock option grants which purported to issue the grants on certain dates which differed from the actual dates on which the approvals were obtained. In October 2003 the Stock Option Committee was dissolved and this practice ceased.

  In late 2003 and 2004 there were grants to non-executive employees for which the price was set on the same date that the Compensation Committee had met and discussed a pool of stock options. However, the individual allocations of the stock option pool had not been completed by management until after the date of those meetings and, consequently, we recorded a retroactively selected measurement date for those grants.

  There were no material measurement date differences related to new hires or annual grants to officers in the fiscal year 2005 and 2006.

- Grants to Officers We determined that, during each of the years between 1997 and 2001, officers were granted stock options that were not approved by the Compensation Committee of the Board of Directors on the date listed on the approval documentation. Instead, on some occasions, the dates were selected to coincide with a low price for a period. The grants were typically documented using a Unanimous Written Consent ("UWC") prepared in most instances by the human resources department. The UWCs did not appropriately reflect that the approval date was not the date indicated in the document. With the following exceptions, this practice appears to have ended after 2001.

  Between December 1999 and January 2003 there were instances where officers received a new hire grant that was dated on a date different from the date on which the Compensation Committee approved the grant. Each of these grants was documented using a UWC prepared by the human resources department. The UWCs did not appropriately reflect that the approval date was not the date indicated in the document. This practice, with one exception in January 2003, appears to have ended in July 2002.

  In late 2003, there was one granting action for which the exercise price of the options coincided with the date of a Compensation Committee meeting, but for which we were unable to establish that all of the specific allocations and approvals had been completed as of the date of that meeting. Consequently, we have concluded that the grants relating to some of the officers receiving that grant had incorrect measurement dates.

  There were no material measurement date differences relating to annual or other grants to non-executive employees in the fiscal years 2005 and 2006.

- Extension of Termination Dates We determined that from 1997 to March 2005 we had not maintained accurate documentation, and had not properly accounted for stock-based compensation, for stock options granted to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees. These types of modifications were not always communicated to our finance department, were not identified in our financial reporting processes and were therefore not properly reflected in our consolidated financial statements.

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- Payroll Tax Withholding Liability We determined that certain of our stock grants which had incorrect measurement dates for accounting purposes had been originally issued as incentive stock options but no longer qualified for ISO tax treatment. The disqualification of the ISO classification and the resulting conversion to non-qualified stock option ("NSO") status exposes us to additional withholding taxes and penalties for failure to properly withhold taxes on the exercise of those options. These expenses reverse in the period in which the related statute of limitations expires.
- Other Stock-based Compensation Adjustments We determined that other miscellaneous modifications and errors had occurred related to employee options that were not identified in our financial reporting processes and therefore not properly reflected in our consolidated financial statements. These miscellaneous items included adjustments for grants to non-employees providing consulting services, adjustments for continued vesting after an individual converted from an employee to a consultant and adjustments in 2006 related to the accounting for our Employee Stock Purchase Plan ("ESPP") under FAS 123(R).

In connection with the restatement, we and the Audit Committee conducted certain investigative procedures to determine whether we could continue to rely upon the work performed by the accounting, finance and legal personnel as it relates to fiscal 2006, 2005, 2004 and prior periods, and the extent to which our prior accounting and controls for non-stock option related matters could be relied upon for purposes of the preparation and certification of the restated consolidated financial statements. In this process, and our internal review of other accounting items relating to transactions occurring in fiscal years 1997 through 2006, we identified certain other errors in accounting determinations and judgments which, although immaterial, have been reflected in the restated consolidated financial statements. These primarily include timing differences for revenue and expense recognition and certain balance sheet reclassifications.

We previously applied APB 25 and its related interpretations and provided the required pro forma disclosures under SFAS 123 through our fiscal year ended December 31, 2005. Under the provisions of APB 25, a non-cash, stock-based compensation expense was required to be recognized for any option granted for which the exercise price was below the market price on the actual grant date. Because most of our remeasured options had an exercise price below the market price on the actual grant date, there should have been a non-cash charge for each of these options under APB 25 equal to the number of option shares, multiplied by the difference between the exercise price and the market price on the actual grant date. That expense should have been amortized over the vesting period of the options. Starting in fiscal 2006, we adopted SFAS 123(R). As a result, beginning in fiscal year 2006, stock-based compensation expense required to be recorded for each remeasured option is equal to the fair value of the option on the actual grant date, amortized over the remaining expected requisite service period of the option. We did not record these stock-based compensation expenses under APB 25 or SFAS 123(R) in our previously issued consolidated financial statements, and that is why we are restating them in this filing.

Restatement and Impact on Consolidated Financial Statements

As a result of the issues identified, we recorded additional pre-tax, non-cash, stock-based compensation expense of \$169.4 million under APB 25 for the period between May 13, 1997 (the date of our initial public offering) and December 31, 2005, comprised of \$146.9 million related to remeasured stock options and \$22.5 million related to other stock compensation adjustments. The cumulative tax benefit from the recording of these adjustments was \$67.0 million. The impact of these adjustments, net of taxes, decreased our previously reported cumulative net income by \$102.4 million for the same period. The tax benefit amount differs from the statutory tax benefit principally as a result of limitations on our ability to deduct certain executive stock-based compensation and changes in geographical mix of expenses.

For the year ended December 31, 2006, in accordance with SFAS 123(R), we recorded additional pre-tax, non-cash, stock-based compensation expense of \$6.8 million comprised of \$6.3 million related to these remeasured stock options and \$0.5 million related to other stock compensation adjustments. As of December 31, 2006, we have \$6.6 million of unrecognized pre-tax stock-based compensation costs calculated under SFAS 123(R) related to remeasured stock option grants that will be recorded as compensation expense over the remaining expected requisite service period of the options.

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Approximately $132.8 million of the total stock-based compensation expenses, representing adjustments from 1997 through 2003, have been reflected, net of income tax effects of $46.4 million, as an increase of $86.4 million to accumulated deficit in the opening balance sheet for fiscal 2004.

Because certain options formerly classified as ISO grants were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date, they do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to NSO status exposes us to additional withholding taxes and penalties for failing to properly withhold taxes on exercise of those options. Through December 31, 2006, we recorded a tax liability of $1.5 million in connection with this disqualification of such ISO tax treatment for tax years ending December 31, 2003 through December 31, 2006. Of the total liability, $0.3 million was related to fiscal 2006 and was paid in fiscal 2007. These amounts are included in the other stock-based compensation adjustments discussed above. We are currently under IRS remote examination with regard to this issue.

We were unable to record additional deferred tax assets related to stock-based compensation in accordance with limits imposed by Section 162(m) of the Internal Revenue Code on certain executive compensation. Consequently, we were required to reduce our available tax net operating loss carry-forwards arising from certain exercised stock options by $15.6 million for periods through December 31, 2005 because of this Section 162(m) limitation.

For explanatory purposes, we have classified the stock option and other adjustments that were affected by the restatement into the aforementioned categories as presented below. The classified amounts involve certain subjective judgments by us to the extent particular stock option related accounting errors may fall within more than one category As such, the table below should be considered a reasonable representation of the magnitude of expenses in each category. For the fiscal years ended December 31, 2005 and September 30, 2000, we had previously recorded stock-based compensation expense of $2.7 million and $171.1 million, respectively, with a related tax benefit of $0.1 million and $29.8 million, respectively, in our reported consolidated financial statements. For fiscal 2005 and 2000, total stock-based compensation, as restated, was $20.5 million and $204.1 million, respectively, with a related tax benefit of $13.2 million and $40.0 million, respectively.

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The ten year impact of the restatement on stock-based compensation is as follows:

(in thousands)	Cumulative effect at December 31, 2005	Twelve Months ended December 31, 2005	Twelve Months ended December 31, 2004	Cumulative effect at December 31, 2003	Twelve Months Ended December 31, 2003	Three Months Ended December 31, 2002
Net income, as previously reported (1)		$ 33,677	$ 33,559			
Stock-based compensation adjustments:						
Additional compensation expense resulting from improper measurement dates for stock option grants:						
New hire grants to employees	$ (13,766)	(762)	(1,323)	$ (11,681)	$ (2,722)	$ (665)
Annual and other grants to employees	(83,893)	(12,655)	(12,230)	(59,008)	(14,413)	(3,891)
All grants to officers	(49,235)	(4,311)	(8,148)	(36,776)	(8,404)	(2,763)
Subtotal charges for changes to measurement date	(146,894)	(17,728)	(21,701)	(107,465)	(25,539)	(7,319)
Other stock-based compensation adjustments:						
Terminations	(21,180)	(277)	(1,576)	(19,327)	(1,613)	(21)
Payroll tax (expense) benefit	(960)	234	4,534	(5,728)	344	—
Other matters related to stock-based compensation	(328)	—	(32)	(296)	—	—
Subtotal other stock-based compensation adjustments	(22,468)	(43)	2,926	(25,351)	(1,269)	(21)
Total stock-based compensation adjustments	(169,362)	(17,771)	(18,775)	(132,816)	(26,808)	(7,340)
Tax related effects of stock-based compensation adjustments	66,989	13,070	7,558	46,361	9,421	2,057
Additional compensation expense, net of tax	(102,373)	(4,701)	(11,217)	(86,455)	(17,387)	(5,283)
Other miscellaneous adjustments	(60)	(60)	32	(32)		
Tax related effects for other miscellaneous adjustments	24	24	(13)	13		
Other adjustments, net of tax	(36)	(36)	19	(19)		
Total decrease	$(102,409)	(4,737)	(11,198)	$ (86,474)		
Net income, as restated		$ 28,940	$ 22,361			

(1) The effects of the restatement adjustments on previously reported net income are reconciled only for the years being reported in the Statement of Operations in this Form 10-K. Net income for all other periods is not being reconciled for the effects of the restatement.

	Twelve Months Ended September 30, 2002	2001	2000	1999	1998	1997
Stock-based compensation adjustments:						
Additional compensation expense resulting from improper measurement dates for stock option grants:						
New hire grants to employees	$ (2,767)	$ (3,194)	$ (1,902)	$ (431)	$ —	$—
Annual and other grants to employees	(21,287)	(11,138)	(6,159)	(2,110)	(10)	—
All grants to officers	(10,312)	(7,280)	(5,917)	(2,064)	(36)	—
Subtotal charges for changes to measurement date	(34,366)	(21,612)	(13,978)	(4,605)	(46)	—
Other stock-based compensation adjustments:						
Terminations	(56)	(1,463)	(13,623)	(2,063)	(488)	—
Payroll tax (expense) benefit	106	(353)	(5,137)	(581)	(107)	—
Other matters related to stock-based compensation	—	63	(274)	216	(301)	—
Subtotal other stock-based compensation adjustments	50	(1,753)	(19,034)	(2,428)	(896)	—
Total stock-based compensation adjustments	(34,316)	(23,365)	(33,012)	(7,033)	(942)	—
Tax related effects of stock-based compensation						

adjustments	10,142	12,216	10,166	2,000	359	—
Additional compensation expense, net of tax	(24,174)	(11,149)	(22,846)	(5,033)	(583)	—

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Costs of Restatement and Related Legal Activities

We have incurred substantial expenses for legal, accounting, tax and other professional services in connection with the investigation, our internal review, restatement activities, preparation of the December 31, 2006 consolidated financial statements and restated consolidated financial statements and related legal matters. These expenses were approximately $31.4 million for the year ended December 31, 2006, including an accrual of $18.0 million related to the potential settlement of the class action lawsuit pertaining to the accounting for stock option grants and related disclosures. See Note 17 of Notes to Consolidated Financial Statements, "Litigation and Asserted Claims."

Through the second quarter of fiscal year 2007, we have incurred additional expenses of approximately $14.4 million for the above noted activities. We expect to continue to incur significant expenses in connection with the derivative and private lawsuits and other stock option investigation related matters.

Regulatory Inquiries Related to Historical Stock Option Practices

We have periodically met and discussed the results of the stock option investigation with the staff of the SEC and the United States Attorney's Office for the Northern District of California. Such government agencies will likely review such findings and may pursue inquiries of their own, which could lead to further investigations and government action, such as fines or injunctions. At this time, we cannot predict what, if any, government actions may result from the completion of the investigation. There is no assurance that other regulatory inquiries will not be commenced by other U.S. federal, state or foreign regulatory agencies. Any potential regulatory proceeding or action may be time consuming, expensive and distracting from the conduct of our business. An unfavorable outcome or significant judgments, settlements and legal expenses related to resolution of any potential regulatory proceeding or action, or further restatement of our consolidated financial statements, could have a material adverse effect on us. We will continue to cooperate with the appropriate government authorities regarding the investigation.

Late SEC Filings and Nasdaq Delisting Proceedings

We failed to timely file with the SEC our Forms 10-Q for the periods ended June 30, 2006, September 30, 2006, March 31, 2007 and June 30, 2007 and our Form 10-K for the year ended December 31, 2006 as a result of the ongoing Audit Committee investigation. We announced in August and November 2006 and March, May and August 2007 that we had received Nasdaq Staff Determination notices stating that we were not in compliance with Nasdaq Marketplace Rule 4310(c)(14) as a result of failing to file our Forms 10-Q and Form 10-K with the SEC and, therefore, were subject to potential delisting from The Nasdaq Global Select Market. We requested, met with and/or submitted appropriate information to Nasdaq throughout 2006 and 2007 in order to request continued listing, and on August 17, 2007, we were granted a stay of delisting from the Board of Directors of Nasdaq in order to file our delayed SEC reports until October 17, 2007. We remain subject to potential delisting as a result of our failure to timely file our Forms 10-Q for the periods ended March 31, and June 30, 2007 that have yet to be filed with the SEC.

Special Litigation Committee

On October 18, 2006, the Audit Committee recommended, and the Board of Directors approved, the formation of a Special Litigation Committee (the "SLC") to evaluate potential claims or other actions arising from the findings of the Audit Committee's investigation. The Board of Directors has appointed Mr. J. Thomas Bentley, Chairman of the Audit Committee, and Mr. Abraham Sofaer, a retired federal judge and Chairman of the Legal Affairs Committee, both of whom joined the Rambus Board of Directors in 2005, to comprise the SLC. We have confirmed that Messrs. Bentley and Sofaer are disinterested directors for the purpose of the SLC and they are not believed to have past or present business dealings with any potential subjects of the investigation that would impair their ability to act independently and in good faith.

The SLC has now concluded its review of claims relating to stock option practices that are asserted in derivative actions against a number of our present and former officers and directors and filed a written report setting out its findings with the U.S. District Court for the Northern District of California. For additional information about the findings of the SLC, please see "Shareholder Litigation Related to Historical Stock Option Practices" below.

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Default and Potential Acceleration of Zero Coupon Convertible Senior Notes

For a complete discussion of the convertible notes and related alleged default and potential acceleration, see Note 16, "Convertible Notes" of Notes to Consolidated Financial Statements.

Shareholder Litigation Related to Historical Stock Option Practices

Derivative Lawsuits

On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and other related accounting issues.

On May 31, 2006, the first of three shareholder derivative actions was filed in the Northern District of California against us (as a nominal defendant) and certain current and former executives and board members. On August 9, 2006, these actions were consolidated for all purposes under the caption, In re Rambus Inc. Derivative Litigation, Master File No. C-06-3513-JF (N.D. Cal.), and Howard Chu and Gaetano Ruggieri were appointed lead plaintiffs. On October 2, 2006, a consolidated complaint was filed. On November 3, 2006, plaintiffs filed an amended consolidated complaint. The complaint alleges violations of certain federal and state securities laws as well as other state law causes of action. The complaint seeks disgorgement and damages in an unspecified amount, unspecified equitable relief, and attorneys' fees and costs.

On July 24, 2006, another shareholder derivative action was filed in Santa Clara Superior Court against us (as a nominal defendant) and certain current and former executives and board members (Soffer v. Tate et al., 1-06-cv-067853 (Santa Clara Sup. Court)). We filed a motion to dismiss this suit on August 23, 2006. In an order filed on October 20, 2006, the California court granted our motion and dismissed the complaint.

On August 22, 2006, another shareholder derivative action was filed in Delaware Chancery Court against us (as a nominal defendant) and certain current and former executives and board members (Bell v. Tate et al., 2366-N (Del. Chancery)). Pursuant to agreement of the parties, no deadline for us to respond to the complaint has been set.

The SLC has concluded its review of claims relating to stock option practices that are asserted in derivative actions against a number of our present and former officers and directors. The SLC has determined that all claims should be terminated and dismissed against the named defendants in the derivative actions with the exception of claims against Ed Larsen, who served as Vice President, Human Resources from September 1996 until December 1999, and then Senior Vice President, Administration until July 2004. The SLC has entered into settlement agreements with certain former officers of the Company. These settlements are conditioned upon the dismissal of the claims asserted against these individuals in the derivative actions. The aggregate value of the settlements to the Company exceeds $6.5 million in cash and equivalent value, as well as substantial additional value to us relating to the relinquishment of claims to over 2.7 million stock options. On August 24, 2007, the written report setting out the findings of the SLC was filed with the U.S. District Court for the Northern District of California. The conclusions of the SLC are subject to review by the court. At a case management conference on September 7, 2007, Rambus informed the California court that it intended to file a motion to terminate in accordance with the SLC's recommendations. Rambus' motion is due by October 5, 2007. Plaintiffs stated their intention to oppose Rambus' motion and to file a motion for leave to amend their complaint. The California court scheduled a hearing on both motions for January 18, 2008.

Class Action Lawsuits

On July 17, 2006, the first of six class action lawsuits was filed in the Northern District of California against us and certain current and former executives and board members. On September 26, 2006, these class action suits were consolidated under the caption, In re Rambus Inc. Securities Litigation, C-06-4346-JF (N.D. Cal.). On November 9, 2006, Ronald L. Schwarcz was appointed lead plaintiff. An amended consolidated complaint was filed on February 14, 2007, naming as defendants us, certain of our current and former executives and board members, and PricewaterhouseCoopers LLP. The complaint alleges violations of various federal securities laws. The complaint seeks damages in an unspecified amount as well as attorneys' fees and costs. On April 2, 2007, we and certain individual defendants filed a motion to dismiss the lawsuit. PricewaterhouseCoopers LLP filed a motion to dismiss on May 7, 2007. Per agreement of the parties, briefing on the motions to dismiss has been suspended, and a hearing on the motion to dismiss previously scheduled for June 22, 2007, was taken off calendar. No new date for the hearing has been set. Subject to approval by the California court, the parties have agreed in principle to resolve this dispute. The settlement, which is subject to final documentation as well as review by the California court, provides for a payment by Rambus of $18.0 million and would lead to a dismissal with prejudice of all claims against all defendants in the class action litigation.

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Private Lawsuits

On March 1, 2007, a pro se lawsuit was filed in the Northern District of California by two alleged Rambus shareholders against us, certain current and former executives and board members and PricewaterhouseCoopers LLP (Kelley et al. v. Rambus, Inc. et al. C-07-01238-JF (N.D. Cal.)). On April 25, 2007, the plaintiffs filed an amended complaint adding Wilson Sonsini Goodrich & Rosati as a defendant. The plaintiffs filed second and third amended complaints without leave of court on May 8 and 14, 2007, respectively. On May 14, 2007 this case was related to the class action, *In re Rambus Inc. Securities Litigation,* C-06-4346-JF. We and the other named defendants filed or joined various motions to dismiss the third amended complaint on June 4 and 5, 2007. On May 8, 2007, a substantially identical pro se lawsuit was filed in the Northern District of California by another purported Rambus shareholder against the same parties. These two pro se lawsuits each allege violations of federal and state securities laws, and state law claims for fraud and breach of fiduciary duty. The two lawsuits were consolidated into a single action by court order dated June 25, 2007. Our pending motion to dismiss was taken off calendar, and the plaintiffs filed a consolidated amended complaint on July 25, 2007. We and the other defendants filed motions to dismiss on August 10, 2007. At a hearing on these motions held on September 7, 2007, the California court stated its intention to dismiss the complaint with leave to amend, but no written order has been issued to date.

Business Overview

We design, develop and license chip interface technologies and architectures that are foundational to nearly all digital electronics products. Our chip interface technologies are designed to improve the time-to-market, performance and cost-effectiveness of our customers' semiconductor and system products for computing, communications and consumer electronics applications.

As of May 31, 2007, our chip interface technologies are covered by more than 600 U.S. and international patents. Additionally, we have approximately 500 patent applications currently pending. These patents and patent applications cover important inventions in memory and logic chip interfaces, in addition to other technologies. We believe that our chip interface technologies provide a higher performance, lower risk, and more cost-effective alternative for our customers than can be achieved through their own internal research and development efforts.

We offer our customers two alternatives for using our chip interface technologies in their products:

First, we license our broad portfolio of patented inventions to semiconductor and system companies who use these inventions in the development and manufacture of their own products. Such licensing agreements may cover the license of part, or all, of our patent portfolio. Patent license agreements are royalty bearing.

Second, we develop "leadership" (which are Rambus-proprietary products widely licensed to our customers) and industry-standard chip interface products that we provide to our customers under license for incorporation into their semiconductor and system products. Because of the often complex nature of implementing state-of-the art chip interface technology, we offer our customers a range of engineering services to help them successfully integrate our chip interface products into their semiconductors and systems. Product license agreements may have both a fixed price (non-recurring) component and ongoing royalties. Engineering services are customarily bundled with our product licenses, and are generally performed on a fixed price basis. Further, under product licenses, our customers may receive licenses to our patents necessary to implement the chip interface in their products with specific rights and restrictions to the applicable patents elaborated in their individual contracts.

We derive the majority of our annual revenues by licensing our broad portfolio of patents for chip interfaces to our customers. Such licenses may cover part or all of our patent portfolio. Leading semiconductor and system companies such as AMD, Elpida, Fujitsu, Qimonda, Intel, Matsushita, NECEL, Renesas, Spansion and Toshiba have licensed our patents for use in their own products.

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We derive additional revenues by licensing our leadership and industry-standard chip interface products to our customers for use in their semiconductor and system products. Our customers include leading companies such as Elpida, Fujitsu, IBM, Intel, Matsushita, Texas Instruments, Sony, ST Micro, Qimonda and Toshiba. Due to the complex nature of implementing our technologies, we provide engineering services under certain of these licenses to help successfully integrate our chip interface products into their semiconductors and systems. Additionally, product licensees may receive, as an adjunct to their chip interface license agreements, patent licenses as necessary to implement the chip interface in their products with specific rights and restrictions to the applicable patents elaborated in their individual contracts.

Royalties represent a substantial portion of our total revenues. The remaining part of our revenue is engineering services revenue which includes license fees and engineering services fees. The timing and amounts invoiced to customers can vary significantly depending on specific contract terms and can therefore have a significant impact on deferred revenues or unbilled receivables in any given period.

We have a high degree of revenue concentration, with our top five licensees representing 63%, 73% and 74% of our revenues for the twelve months ended December 31, 2006, 2005 and 2004, respectively. For the twelve months ended December 31, 2006, revenues from Fujitsu, Elpida, Qimonda and Intel, each accounted for greater than 10% of total revenues. For the twelve months ended December 31, 2005, revenue from Intel, Elpida, Toshiba and Matsushita, each accounted for greater than 10% of our total revenues. For the twelve months ended December 31, 2004, revenue from Intel, Toshiba and Elpida, each accounted for greater than 10% of our total revenues. Our revenues from companies based outside of North America accounted for 75%, 71% and 69% of our revenues for the twelve months ended December 31, 2006, 2005 and 2004, respectively. We expect that we will have significant revenues from companies based outside the United States for the foreseeable future and our revenue concentration will decrease over time as we license new customers.

Historically, we have been involved in significant litigation stemming from the unlicensed use of our inventions. Our litigation expenses have been high and difficult to predict at this time and we anticipate future litigation expenses to continue to be significant, volatile and difficult to predict. If we are successful in the litigation and/or related licensing, our revenue could be substantially higher in the future; if we are unsuccessful, our revenue would likely decline.

Revenue Concentration

As indicated above, we have a high degree of revenue concentration. Many of our licensees have the right to cancel their licenses The particular licensees which account for revenue concentration have varied from period to period as a result of the addition of new contracts, expiration of existing contracts, industry consolidation, the expiration of deferred revenue schedules under existing contracts, and the volumes and prices at which the licensees have recently sold licensed semiconductors to system companies. These variations are expected to continue in the foreseeable future, although we expect that our revenue concentration will decrease over time as we license new customers.

The royalties we receive are partly a function of the adoption of our chip interfaces by system companies. Many system companies purchase semiconductors containing our chip interfaces from our licensees and do not have a direct contractual relationship with us. Our licensees generally do not provide us with details as to the identity or volume of licensed semiconductors purchased by particular system companies. As a result, we face difficulty in analyzing the extent to which our future revenues will be dependent upon particular system companies. System companies face intense competitive pressure in their markets, which are characterized by extreme volatility, frequent new product introductions and rapidly shifting consumer preferences. There can be no assurance as to the unit volumes of licensed semiconductors that will be purchased by these companies in the future or as to the level of royalty-bearing revenues that our licensees will receive from sales to these companies. Additionally, there can be no assurance that a significant number of other system companies will adopt our chip interfaces or that our dependence upon particular system companies will decrease in the future.

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International Revenues

We expect that revenues derived from international licensees will continue to represent a significant portion of our total revenues in the future. To date, all of the revenues from international licensees have been denominated in U.S. dollars. However, to the extent that such licensees' sales to systems companies are not denominated in U.S. dollars, any royalties that we receive as a result of such sales could be subject to fluctuations in currency exchange rates. In addition, if the effective price of licensed semiconductors sold by our foreign licensees were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for licensed semiconductors could fall, which in turn would reduce our royalties. We do not use financial instruments to hedge foreign exchange rate risk.

For additional information concerning international revenues, see Note 13, "Business Segments, Exports and Major Customers" of Notes to Consolidated Financial Statements of this Form 10-K.

Expenses

We intend to continue making significant expenditures associated with engineering, marketing, general and administration including litigation expenses, and expect that these costs and expenses will continue to be a significant percentage of revenues in future periods. Whether such expenses increase or decrease as a percentage of revenues will be substantially dependent upon the rate at which our revenues change.

Engineering. Engineering costs are allocated between cost of contract revenues and research and development expenses. Cost of contract revenues reflects the portion of the total engineering costs which are specifically devoted to individual licensee development and support services. The balance of engineering costs, incurred for the development of generally applicable chip interface technologies, is charged to research and development. In a given period, the allocation of engineering costs between these two components is a function of the timing of the development and implementation schedules of individual licensee contracts.

Marketing, general and administrative. Marketing, general and administrative expenses include expenses and costs associated with trade shows, public relations, advertising, legal, finance, insurance and other marketing and administrative efforts. Litigation expenses are a significant portion of our marketing, general and administrative expenses and they can vary significantly from quarter to quarter. Consistent with our business model, sales and marketing activities are focused on developing relationships with potential licensees and on participating with existing licensees in marketing, sales and technical efforts directed to system companies. In many cases, we must dedicate substantial resources to the marketing and support of system companies. Due to the long business development cycles we face and the semi-fixed nature of marketing, general and administrative expenses in a given period, these expenses generally do not correlate to the level of revenues in that period or in recent or future periods.

Taxes. We report certain items of income and expense for financial reporting purposes in different years than they are reported for tax purposes. We report contract fees and royalties when received for tax purposes, as required by tax law. We recognize revenue for financial reporting purposes as such amounts are earned and this could occur over several reporting periods. As a result of the above and other differences between tax and financial reporting for income and expense recognition, our net operating profit or loss for tax purposes may be more or less than the amount recorded for financial reporting purposes.

Results of Operations

The following table sets forth, for the periods indicated, the percentage of total revenues represented by certain items reflected in our consolidated statements of operations:

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	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)
Revenues:			
Contract revenues	13.5%	17.1%	17.1%
Royalties	86.5%	82.9%	82.9%
Total revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of contract revenues *	15.6%	15.1%	16.2%
Research and development *	35.3%	31.2%	26.4%
Marketing, general and administrative *	53.5%	51.2%	43.0%
Costs of restatement and related legal activities	16.1%	0.0%	0.0%
Total costs and expenses	120.5%	97.5%	85.6%
Operating income (loss)	(20.5)%	2.5%	14.4%
Interest and other income, net	7.3%	22.2%	5.8%
Income (loss) before income taxes	(13.2)%	24.7%	20.2%
Provision for (benefit from) income taxes	(6.1)%	6.2%	4.7%
Net income (loss)	(7.1)%	18.5%	15.5%

* Includes stock-based compensation:			
Cost of contract revenues	4.2%	2.5%	2.3%
Research and development	7.6%	5.1%	3.9%
Marketing, general and administrative	8.9%	5.4%	6.8%
Total stock-based compensation	20.7%	13.0%	13.0%

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

(dollars in millions)	Twelve Months Ended December 31, 2006	2005	2004	2005 to 2006 Change	2004 to 2005 Change
Total Revenues					
Contract revenues	$ 26.4	$ 26.9	$ 24.8	(1.9)%	8.5%
Royalties	168.9	130.3	120.1	29.6%	8.5%
Total revenues	$ 195.3	$ 157.2	$ 144.9	24.2%	8.5%

Contract Revenues

Percentage of Completion Contracts

For the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005, percentage-of-completion contract revenue decreased (approximately $8.2 million) due to completion of leadership chip interface contracts during 2005, including XDR and FlexIO.

For the twelve months ended December 31, 2005 as compared to the twelve months ended December 31, 2004, percentage of completion contract revenue increased (approximately $0.2 million) due to new XDR and FlexIO chip interface contracts offset in part by the decrease in recognition of revenue associated with XDR, FlexIO and serial link chip interface contracts originating prior to 2005.

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We believe that percentage-of-completion contract revenues recognized will continue to fluctuate over time, based on our ongoing contractual requirements, the amount of work performed, and by changes to work required, as well as new contracts booked in the future.

Other Contracts

For the twelve months ended December 31, 2006 as compared to the same period in 2005, revenue which is recognized over the estimated service periods or on a completed contract basis increased (approximately $7.7 million) due to increased revenue from industry standard and leadership chip interface contracts.

For the twelve months ended December 31, 2005 as compared to the same period in 2004, revenue which is recognized over the estimated service periods increased (approximately $1.9 million) primarily due to the increase in recognition of revenue associated with DDR, serial link, XDR and FlexIO contracts.

Royalty Revenues

Patent Licenses

In the twelve months ended December 31, 2006, 2005 and 2004, our largest source of royalties was related to the license of our patents for SDR and DDR-compatible products. Royalties increased (approximately $56.0 million) for SDR and DDR-compatible products in the twelve months ended December 31, 2006 as compared to the same period in 2005. The increase is primarily due to revenue from licensees signed in 2005 and the first quarter of 2006, including Fujitsu, AMD and Qimonda; partially offset by decreased royalties from Samsung and Matsushita. Royalties increased (approximately $12.4 million) for SDR and DDR-compatible products in the twelve months ended December 31, 2005 as compared to the same period in 2004, primarily due to increased shipment volumes of SDR and DDR controllers and the first quarterly royalty payment from Qimonda.

As of December 31, 2006, we had both variable and fixed royalty agreements for our SDR and DDR-compatible licenses. On December 31, 2005, we entered into a five-year patent license agreement with AMD. We expect to recognize royalty revenues under the AMD agreement on a quarterly basis as amounts become due and payable because the contractual terms of the agreement provide for payments on an extended term basis. We recognized royalty revenues of $18.8 million in fiscal year 2006, and we expect to recognize $15.0 million in fiscal years 2007 through 2009 and $11.3 million in the fiscal year 2010 under the AMD agreement. The AMD agreement provides a license to our patents used in the design of DDR2, DDR3, FB-DIMM, PCI Express and XDR controllers as well as other current and future high-speed memory and logic controller interfaces.

On March 16, 2006, we entered into a five-year patent license agreement with Fujitsu. We expect to recognize royalty revenues under the Fujitsu agreement on a quarterly basis as amounts become due and payable as the contractual terms of the agreement provide for payments on an extended term basis. We recognized a total of $34.8 million of royalty revenues in fiscal year 2006. The Fujitsu agreement provides a license that covers semiconductors, components and systems, but does not include a license to Fujitsu for its own manufacturing of commodity SDRAM other than limited amounts of SDR SDRAM annually.

On March 21, 2005, we entered into a settlement and license agreement with Infineon (and its former parent Siemens), which was assigned to Qimonda in October 2006 in connection with Infineon's spin-off of Qimonda. The settlement and license agreement, among other things, requires Qimonda to pay to us aggregate royalties of $50.0 million in quarterly installments of $5.8 million, which started on November 15, 2005. The settlement and license agreement further provides that if we enter into licenses with certain other DRAM manufacturers, Qimonda will be required to make additional royalty payments to us which may aggregate up to $100.0 million. If we do not succeed in entering into these additional license agreements necessary to trigger Qimonda's obligations, Qimonda's quarterly payments will decrease to $3.2 million in the fourth quarter of 2007 and then cease in the first quarter of 2008. If that were to occur, the quarterly payments would not recommence until we enter into these additional license agreements.

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We are in negotiations with new prospective licensees. We expect SDR and DDR-compatible royalties will continue to vary from period to period based on our success adding new licensees, as well as the level of variation in our licensees' reported shipment volumes, sales price and mix, offset in part by the proportion of licensee payments that are fixed.

On February 2, 2007, the FTC issued its remedy order, which among other things, imposes maximum royalty rates that we can collect for SDR and DDR SDRAM products shipped after April 12, 2007; the FTC subsequently granted a partial stay of this order, which allows us to charge but not collect royalties above the FTC-imposed maximums, pending our anticipated appeal of the FTC's decision. The FTC has allowed that royalties above these maximums be placed into an escrow account or held by a contingent contractual agreement. We expect that there will be a decrease in SDR and DDR-compatible royalty revenues as a result of the FTC order beginning in the third quarter of 2007.

The Intel patent cross-license agreement represented the second largest source of royalties in the twelve months ended December 31, 2006, 2005 and 2004. Royalties under this agreement decreased from $40.0 million to $20.0 million for the twelve months ended December 31, 2006 compared to the same periods in 2005, and were unchanged in the twelve months ended December 31, 2005 as compared to the same period in 2004. The patent cross-license agreement expired in September 2006 and no further royalty payments are owed to us under it. Intel now has a paid up license for the use of all of our patents which claimed priority prior to September 2006.

Product Licenses

In the twelve months ended December 31, 2006, 2005 and 2004, royalties from RDRAM-compatible products represented the third largest source of royalties. Royalties from RDRAM memory chips and controllers decreased during the twelve months ended December 31, 2006 as compared to the same period in 2005 (approximately $1.4 million). Royalties from RDRAM memory chips and controllers decreased during the twelve months ended December 31, 2005 as compared to the same period in 2004 (approximately $3.4 million). RDRAM is approaching end-of-life and in the future, we expect RDRAM royalties will continue to decline.

Royalties from XDR, FlexIO, DDR and serial link-compatible products represent the fourth largest category of royalties. Royalties from XDR, FlexIO and serial link-compatible products increased during the twelve months ended December 31, 2006 as compared to the same period in 2005 (approximately $4.0 million). The increase of XDR, FlexIO and serial link-compatible products for 2006 over 2005 is primarily due to increased volumes of XDR DRAM associated with shipments of the Sony PLAYSTATION®3 product. Royalties from XDR, FlexIO and serial link-compatible products increased during the twelve months ended December 31, 2005 as compared to the same period in 2004 (approximately $1.2 million). This increase was primarily due to minimum guaranteed royalties from a contract for serial link-compatible products.

In the future, we expect XDR, FlexIO and serial link royalties will continue to vary from period to period based on our licensees' shipment volumes, sales prices, and product mix. We expect that XDR and FlexIO royalties will increase associated with shipments of the Sony PLAYSTATION®3 product.

Engineering costs:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)	2005 to 2006 Change	2004 to 2005 Change
Engineering costs					
Cost of contract revenues	$ 22.2	$ 19.8	$ 20.2	12.1%	(2.0)%
Stock-based compensation	8.2	3.9	3.3	110.3%	18.2%
Total cost of contract revenues	30.4	23.7	23.5	28.3%	0.9%
Research and development	54.1	41.0	32.6	32.0%	25.8%
Stock-based compensation	14.9	8.1	5.7	84.0%	42.1%
Total research and development	69.0	49.1	38.3	40.5%	28.2%
Total engineering costs:	$ 99.4	$ 72.8	$ 61.8	36.5%	17.8%
Stock-based compensation					
Cost of contract revenues	$ 8.2	$ 3.9	$ 3.3	110.3%	18.2%
Research and development expenses	14.9	8.1	5.7	84.0%	42.1%
Total stock-based compensation	$ 23.1	$ 12.0	$ 9.0	92.5%	33.3%

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

For the twelve months ended December 31, 2006 as compared to the same period in 2005, the increase in total engineering costs was primarily a result of increased stock-based compensation (approximately $11.1 million) associated with the adoption of SFAS 123(R) in 2006, increased salary and benefit costs (approximately $6.7 million) associated with an average increase of approximately 52 employees (22 in the U.S. and 30 in India), increased bonus expense (approximately $3.3 million) due to higher achievement of bonus targets and an increased number of participants in the corporate bonus plan, increased information technology costs due to spending related to personnel, consulting and depreciation (approximately $2.2 million) increased depreciation and intangible amortization expense (approximately $2.0 million) higher payroll taxes (approximately $0.7 million) associated with higher stock option exercises in the first half of 2006 and increased salary costs.

For the twelve months ended December 31, 2005 as compared to the same period in 2004, the increase in total engineering costs was primarily a result of increased stock-based compensation (approximately $3.0 million), increased salary and benefit costs (approximately $2.3 million) associated with an average increase of approximately 45 employees (10 in the U.S. and 35 in India), increased amortization of intangible asset costs (approximately $1.8 million) associated with the purchase of digital core design assets from GDA during the second quarter of 2005 and the purchase of serial link intellectual property from Cadence during the third quarter of 2004, increased consulting costs (approximately $1.2 million), and increased depreciation and amortization costs (approximately $1.0 million).

In certain periods, the cost of contract revenues may exceed contract revenues. This can be a result of expensing pre-contract costs, expensing completed contract costs where the realizability of an asset is uncertain, and low utilization of project resources.

In the near term, we expect engineering costs will continue to increase as we make investments in the infrastructure and technologies required to maintain our leadership position in chip interface technologies and increase headcount.

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Marketing, general and administrative costs:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)	2005 to 2006 Change	2004 to 2005 Change
Marketing, general and administrative costs					
Marketing, general and administrative costs	$ 48.2	$ 33.7	$ 29.4	43.0%	14.6%
Litigation expense	38.9	38.2	23.1	1.8%	65.4%
Stock-based compensation	17.5	8.5	9.8	105.9%	(13.3)%
Total marketing, general and administrative costs	$104.6	$ 80.4	$ 62.3	30.1%	29.1%

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

For the twelve months ended December 31, 2006 as compared to the same period in 2005, the increase in total marketing, general and administrative costs including litigation expense was primarily a result of increased stock-based compensation costs (approximately $9.0 million) associated with the adoption of SFAS 123(R) in 2006, increased salary costs (approximately $5.6 million) associated with an average increase of approximately 37 employees (29 in the U.S. and 8 internationally), increased bonus expense (approximately $3.2 million) due to higher achievement of bonus targets and an increased number of participants in the corporate bonus plan, increased consulting costs (approximately $1.2 million), higher payroll taxes (approximately $1.1 million) associated with higher stock option exercises in the first half of 2006 and increased salary costs, increased depreciation and intangible amortization expense (approximately $1.0 million) increased litigation expense (approximately $0.7 million) and increased rent expense (approximately $0.7 million). Costs of restatement and related legal activities are discussed in the next section.

For the twelve months ended December 31, 2005 as compared to the same period in 2004, the increase in total marketing, general and administrative costs including litigation expense was primarily due to increased expenses associated with the defense of our intellectual property (approximately $15.1 million), increased salaries (approximately $1.7 million) primarily due to an average increase of approximately 26 employees (22 in the U.S. and 4 internationally), increased information technology costs (approximately $1.8 million) primarily due to increased investment in business applications, and increased professional services costs (approximately $0.6 million); partially offset by decreased stock-based compensation (approximately $1.3 million).

In the future, we expect that marketing, general and administrative expenses will vary from period to period based on the legal, trade shows, advertising, and other marketing and administrative activities undertaken, accounting for stock options and the change in sales, marketing and administrative headcount in any given period. Litigation expenses are expected to vary from period to period due to the variability of litigation activities. Please refer to Notes 17 and 18, "Litigation and Asserted Claims" and "Subsequent Events," respectively, of Notes to Consolidated Financial Statements for a more detailed explanation of our continuing litigation activities.

Costs of restatement and related legal activities:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005	2004	2005 to 2006 Change	2004 to 2005 Change
Costs of restatement and related legal activities	$ 31.4	$ —	$ —	—	—

For the twelve months ended December 31, 2006 we incurred approximately $31.4 million in costs of restatement and related legal activities. There were no comparable costs incurred for the twelve months ended December 31, 2005 and December 31, 2004. The costs consist primarily of settlement accruals, including the accrual of $18.0 million in the third quarter of 2006 related to the potential settlement of the consolidated class action lawsuit pertaining to the accounting for stock option grants and related disclosures, plus investigation, audit, litigation and other professional fees. Through the second quarter of fiscal 2007 we have incurred additional costs of restatement and related legal activities of approximately $14.4 million. We anticipate that there will be additional costs relating to these matters in the future.